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RUEATRS/DEPARTMENT OF TREASURY WASHDC  
RUEHJO/AMCONSUL JOHANNESBURG 7771  
RUEHTN/AMCONSUL CAPE TOWN 5116  
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DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR TRINA RAND  
USTR FOR COLEMAN

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E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)  
PGOV, SF  
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER  
NOVEMBER 30, 2007 ISSUE

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¶1. (U) Summary. This is Volume 7, Issue 48 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- GDP Growth Accelerates
- Inflation Tops 7 Percent
- Business Confidence at 4-Year Low
- Credit Growth Keeps Pressure on Rates
- US Company First to Use Incentive Program
- US is SA's Number One Market
- Telkom Ends Disposal Talks With MTN, Vodafone
- NECSA Moots Second Reactor at Pelindaba

End Summary

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GDP Growth Accelerates  
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¶2. (U) According to figures released by Statistics South Africa (StatsSA), gross domestic product (GDP) growth accelerated from 4.4 percent in the second quarter to 4.7 percent in the third quarter of 2007, demonstrating that the economy has so far been resilient to tighter monetary policy. "We believe the GDP data remove the last credible argument for the South African Reserve Bank (SARB) to leave interest rates on hold next week," Absa Capital said in a research note. The financial services industry grew by 12.1 percent in the third quarter of 2007 as tighter credit had only a muted effect on consumer demand. The construction sector grew by 14.7 percent in the third quarter, fueled by the government's R482 billion (\$70 billion) infrastructure spending drive. Growth in retail sales, the third-biggest sector, slowed from 4.7 percent in the second quarter to 4.5 percent in the third quarter. Manufacturing output contracted 2.5 percent in the third quarter, putting it into a recession and clouding official plans to boost exports. According to the Bureau of Economic Research (BER), growth was expected to remain brisk at 5 percent this year, but would slow to "a little above 4 percent" next year. This need not be viewed as a bad outcome, given that growth rates of more than 5 percent were helping to fan inflation and widen South Africa's current account deficit. (Business Day, November 28, 2007)

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Inflation Tops 7 Percent  
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13. (U) According to StatsSA, inflation rose from an annual rate of 6.7 percent in September to 7.3 percent in October 2007, scaling a four-and-half-year peak. Food and fuel were again the main drivers of the acceleration in the CPIX-inflation rate, putting it in breach of its 3 percent-6 percent target for the seventh month running. StatsSA data also suggested that inflation would peak above 8 percent early next year, higher than previous forecasts and paving the way for an interest rate hike at the SARB Monetary Policy Committee meeting next week with possibly more hikes next year. Economists also observed that the unexpected pick-up in growth during the third quarter of 2007 should give the SARB ample scope to raise interest rates again. The SARB has raised its repo rate 3.5 percentage points to 10.5 percent since June 2006. (Business Day, November 30, 2007)

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Business Confidence at 4-Year Low  
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14. (U) The Bureau for Economic Research (BER) business confidence index decreased from 72 points in the third quarter of 2007 to 67 points in the fourth quarter of 2007, the fifth consecutive fall and its lowest level since the final quarter of 2003. The BER business confidence index peaked at 88 points in the fourth quarter of 2004 but has been steadily falling since interest rates began to rise in the middle of 2006. Sentiment in the retail sector was hardest hit, plunging by 13 points as sales volumes fell and price margins narrowed. According to the BER, price margins have come under pressure as businesses find it difficult to fully pass on higher costs stemming primarily from higher commodity prices. Economists said the sustained decline in business confidence indicated that the surprise pickup in economic growth during the third quarter of this

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year was unlikely to last. (Business Day, November 29, 2007)

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Credit Growth Keeps Pressure on Rates  
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15. (U) South African Reserve Bank (SARB) data showed that growth in demand for credit from the private sector eased marginally from 22.46 percent in September to 22.27 percent in October 2007, while annualized M3 money supply was down from 24.94 percent to 23.39 percent during the same period. However, analysts said the slowdown was not pronounced enough to placate the SARB's concerns over rising inflation and stubbornly high consumer spending. "These numbers are huge despite a slowdown," said Citadel economist Salomi Odendaal. Credit growth has remained robust despite the higher rates and a new credit law, introduced in June, which clamps down on reckless lending. (Business Day, November 29, 2007)

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US Company First to Use Incentive Program  
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16. (U) TeleTech, a US business outsourcing company, is the first investor to utilize the South Africa Department of Trade and Industry's (DTI) incentive program. DTI launched its five-year, R1 billion (\$150 million) incentive scheme to attract outsourcing investors in March 2007. DTI Chief Director of Strategy Competitiveness Raymond Ngcobo said TeleTech was one of seven companies identified under the program. A multimillion-rand building is being built in Cape Town for TeleTech's operations, and TeleTech is expected to receive financial grants of R37,000 to R60,000 (\$5,280 to \$8,570) for each of its expected 1,300 call center seats. Each call center seat can generate up to three jobs. According to Teletech General Manager Craig Reines, Teletech was attracted by South Africa's "excellent infrastructure, growing talented labor pool and its positioning as the gateway to the rest

of the continent." (Business Report, November 27, 2007)

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US is SA's Number One Market  
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17. (U) According to Department of Trade and Industry statistics, South Africa exported more goods to the U.S. in 2007 up to August than any other country, including South Africa's traditionally largest trade partner Japan. The US surpassed Japan by a slight margin with R34 billion (\$466 million) in exports from South Africa compared to Japan's R33.8 billion (\$483 million). South Africa's exports to the U.S. are 22 percent higher this year than in the same period last year. Platinum group metals and coal are Japan's biggest imports from South Africa, while the U.S.' major imports include mining products, vehicle parts and machinery. (The Times, November 26, 2007)

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Telkom Ends Disposal Talks With MTN, Vodafone  
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18. (U) Telkom, South Africa's former telecoms monopoly, called off break-up talks with mobile phone rival MTN and partner Vodafone on November 28, sending its shares plunging over 10 percent. Telkom said talks to sell part of its mobile phone assets to British-based Vodafone had hinged on a successful deal to sell all or some of its QVodafone had hinged on a successful deal to sell all or some of its fixed-line assets to mobile phone operator MTN. Department of Communications Director General Lyndall Shope-Mafole said the South African Government, which owns 38 percent of Telkom and had backed the talks with MTN and Vodafone, remained confident in Telkom's board. Telkom said it would continue to pursue its options to offer converged services, such as combined fixed and mobile voice and data services. An industry analyst said that MTN was interested in Telkom's national back-bone, but Telkom probably wanted to foist much more onto MTN, including 30,000 staff. (Business Day and Engineering News, November 29, 2007)

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NECSA Moots Second Reactor at Pelindaba  
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19. (U) The Nuclear Energy Corporation of South Africa (NECSA) has  
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been identified by the government as the lead agency to develop the nuclear industry, including R&D and development of nuclear fuel and enrichment facilities. As a first step in the process, NECSA CEO Rob Adam said NECSA is considering building a second nuclear reactor at its Pelindaba research reactor site near Hartbeespoort dam in the North West, not far from Pretoria. This would be a companion to the Safari 1 reactor, which was built in the 1960's and is the country's oldest reactor. Safari 1 has propelled NECSA into being the world's third largest producer of medical isotopes, including molybdenum 99 nuclear isotopes. NECSA is developing processes aiming to shift its reliance on highly enriched uranium (95 per cent or weapons grade) to lesser enriched uranium (about 5 per cent or the level required to run nuclear power stations) to produce medical isotopes. NECSA is considering building a second reactor to expand its commercial isotope production. The article ended by noting "sensitivities illustrated by the attempted theft of a 'crucial' PC on a daring night raid on Pelindaba, thwarted but resulting in the suspension of six security officials. Adams says he has no idea about the motives for the break-in, under investigation." (Financial Mail, November 23, 2007)

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